

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
First- Class Package Service
First- Class Package Service Contract 39

Docket No. MC2016-38

Competitive Product Prices
First- Class Package Service Contract 39
(MC2016-38)
Negotiated Service Agreement

Docket No. CP2016-47

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD FIRST-CLASS
PACKAGE SERVICE CONTRACT 39 TO
COMPETITIVE PRODUCT LIST

(December 21, 2015)

The Public Representative hereby provides comments pursuant to Order No. 2882.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Request to add First-Class Package Service Contract 39 to the competitive product list.²

The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a), a public (redacted) version of Governor's Decision No. 11-6 and related analysis, a public version of First-Class Package Service Contract 39 , and proposed changes to the Mail Classification Schedule competitive product list with the additions underlined. The Postal Service also

¹ PRC Order No. 2882, Notice and Order Concerning the Addition of First-Class Package Service Contract 39 to the Competitive Product List, December 16, 2015 (Notice).

² Request of the United States Postal Service to Add First-Class Package service Contract 39 to the Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, December 15, 2015 (Request).

filed under seal an unredacted version of Governor's Decision No. 11-6 and Contract 39, and supporting financial data estimating the contract value during the first year.

According to the Postal Service, First-Class Package Service Contract 39 is a competitive product featuring rates "not of general applicability" within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. The Postal Service also maintains that the prices and classification changes applicable to Contract 39 are supported by Governors' Decision No. 11-6.³ The Postal Service further asserts that the Statement of Supporting Justification (Statement) provides support for adding Contract 39 to the competitive product list and the compliance of the instant contract with 39 U.S.C. § 3633(a). Request at 2; *Id.*, Attachment D.

The effective date for Contract 39 is 2 business days following the day on which the Commission issues all necessary regulatory approvals. *Id.*, Attachment B at 5 (Article II). The contract will expire 3 years from the effective date unless either party terminates the contract on 30 days' prior written notification, or other specific events. *Id.*, Attachment B at 5 (Article III).

COMMENTS

The Public Representative has reviewed the Postal Service's Request, the Statement of Supporting Justification, as well as Contract 39, the financial data filed under seal with the Postal Service's Request and the Postal Service's response to a Chairman's Information Request. Based upon that review, the Public Representative concludes that First-Class Package Service Contract 39 should be classified as a competitive product and added to the competitive product list. In addition, it appears

³ Decision of the Governors of the United States Postal Service on Establishment of Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors' Decision No. 11-6).

that Contract 39 in the first year should generate sufficient revenues to cover costs and thereby satisfy 39 U.S.C. § 3633(a).

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that First-Class Package Service Contract 39 be added to the competitive product list. 39 U.S.C. § 3642 requires the Commission to consider whether “the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” 39 U.S.C. § 3642(b)(1). Products over which the Postal Service exercises such power are categorized as market dominant while all others are categorized as competitive.

The Postal Service’s Statement of Supporting Justification (Statement) makes a number of assertions that address the considerations of section 3642(b)(1). Request, Attachment D at 2. These assertions appear reasonable. Based upon the Statement, the Public Representative concludes that the Postal Service’s Request to add First-Class Package Service Contract 39 to the competitive product list is appropriate.

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service’s competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service. Based upon a review of the financial data, the negotiated prices for Contract 39 should generate sufficient revenues to cover costs during the first year of the contract and therefore meet the requirements of 39 U.S.C. § 3633(a). The estimated cost coverage contained in the financial model is most likely understated since it does not take into account the higher rates for First-Class Package Service recently approved by the Commission in Docket No. CP2016-9. In addition, while Contract 39 is expected to remain in effect for a period of 3 years, during this period, the contract contains a mechanism for the upward annual adjustment of prices.

Finally, the Postal Service must file revenue and cost data for Contract 39 in future Annual Compliance Reports. This data will permit the Commission to annually review the financial results for First-Class Package Service Contract 39 in a future Annual Compliance Determination (ACD) report for compliance with 39 U.S.C. § 3633(a).

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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